

**COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION**

**IN THE MATTER OF:** )  
 )  
**APPLICATION OF KENTUCKY-AMERICAN ) CASE NO. 2012-00393**  
**WATER COMPANY FOR ISSUANCE OF )**  
**INDEBTEDNESS AND CONTINUED )**  
**PARTICIPATION WITH AMERICAN WATER )**  
**CAPITAL CORP. )**

**ORDERING PARAGRAPH 4 REPORT**

In accordance with Ordering Paragraph 4 of the Commission’s October 29, 2012 Order in this matter, this is to report to the Commission that Kentucky American Water (“KAW”) issued debt in the amount of \$7,859,000 on May 15, 2013 in accordance with the Commission’s October 29, 2012 Order. The debt was issued pursuant to KAW’s participation in the American Water Capital Corporation (“AWCC”) borrowing program. The interest rate for the issuance is 4.00% and it matures on October 15, 2037.

The attached documentation shows that the rate of 4.00% was the most reasonable at the time of issuance. The page captioned “Bloomberg Valuation Price” shows Bloomberg’s valuation of the debt at issue at an interest rate of 4.385% on May 15, 2013. Further, the page captioned “Secondary Traded Price” shows the interest rate at which the debt that KAW assumed was trading for on the secondary market on May 15, 2013. That secondary market interest rate was 4.525%. During the last two calendar years, AWCC has only issued one external borrowing and it was at a coupon rate of 4.3%. Finally, the attached also includes information regarding recent utility issuances and the advantages derived from KAW’s participation in the AWCC borrowing program which ensure that KAW receives the lowest available rate for its borrowings.

In sum, the attached shows the rate of 4.00% to be the most reasonable under the circumstances that existed at the time of issuance.

Date: May 21, 2013

Respectfully submitted,

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By:

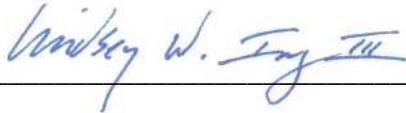
  
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Attorneys for Kentucky-American Water Company

**CERTIFICATE**

In accordance with Ordering Paragraph No. 10 of the Commission's August 31, 2012 Order, this is to certify that Kentucky-American Water Company's May 21, 2013 electronic filing is a true and accurate copy of the documents to be filed in paper medium; that the electronic filing has been transmitted to the Commission on May 21, 2013; that no party to this case has been excused from participation by electronic means; and that an original and one copy of the filing will be delivered to the Commission on May 22, 2013.

STOLL KEENON OGDEN PLLC

By 

Attorneys for Kentucky-American Water Company



AMERICAN WATER

William D Rogers  
Vice President and Treasurer  
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To: Kentucky American Water (KAW)

Date: May 15, 2013

RE: KAW Debt Financing Interest Rate

KAW is currently not rated by the credit rating agencies but if it were, it is likely that KAW would be rated lower than American Water Capital Corp (AWCC)'s Baa2 (positive outlook) and BBB+ (positive outlook) from Moody's and Standard and Poor's, respectively.

As shown in the credit metrics below, American Water Works Company (AWK) has stronger coverage ratios than that of KAW with ratios such as EBITDA/Interest at 4x compared to KAW's 3x. In addition, AWCC enjoys the benefit of size (economy of scale), diversification, and greater access to a broader base of investors through larger capital markets' offerings.

	As of 12/31/2012*	
	American Water Works Company, Inc.	Kentucky-American Water Company
EBITDA/Interest Expense	3.97x	2.92x
Total Debt/EBITDA	4.28x	5.20x
Total Debt/Total Capitalization	55.7%	55.3%
Cash Flow from Operations/Interest Expense	2.90x	2.12x
Cash Flow from Operations/Debt	17.1%	13.9%

\* Source: AWK and KAW's 10K

It should also be noted that as a result of aggregating the financing needs of all the operating subsidiaries, AWCC is able to issue larger amounts and obtain lower underwriting fee as a percentage of total debt issuance. Furthermore, the fixed portion of the issuance costs may be spread over a number of operating subsidiaries which otherwise would have been borne in its entirety by one entity.

Therefore, AWCC is able to issue debt more cost efficiently at a lower all-in-rate than otherwise feasible for operating subsidiaries on a stand-alone basis, including KAW. AWCC then loans the proceeds to the operating subsidiaries as needed at the same or better terms (including maturity and interest rates) than those obtained by AWCC.

Respectfully,

  
\_\_\_\_\_  
William D Rogers  
Vice President and Treasurer

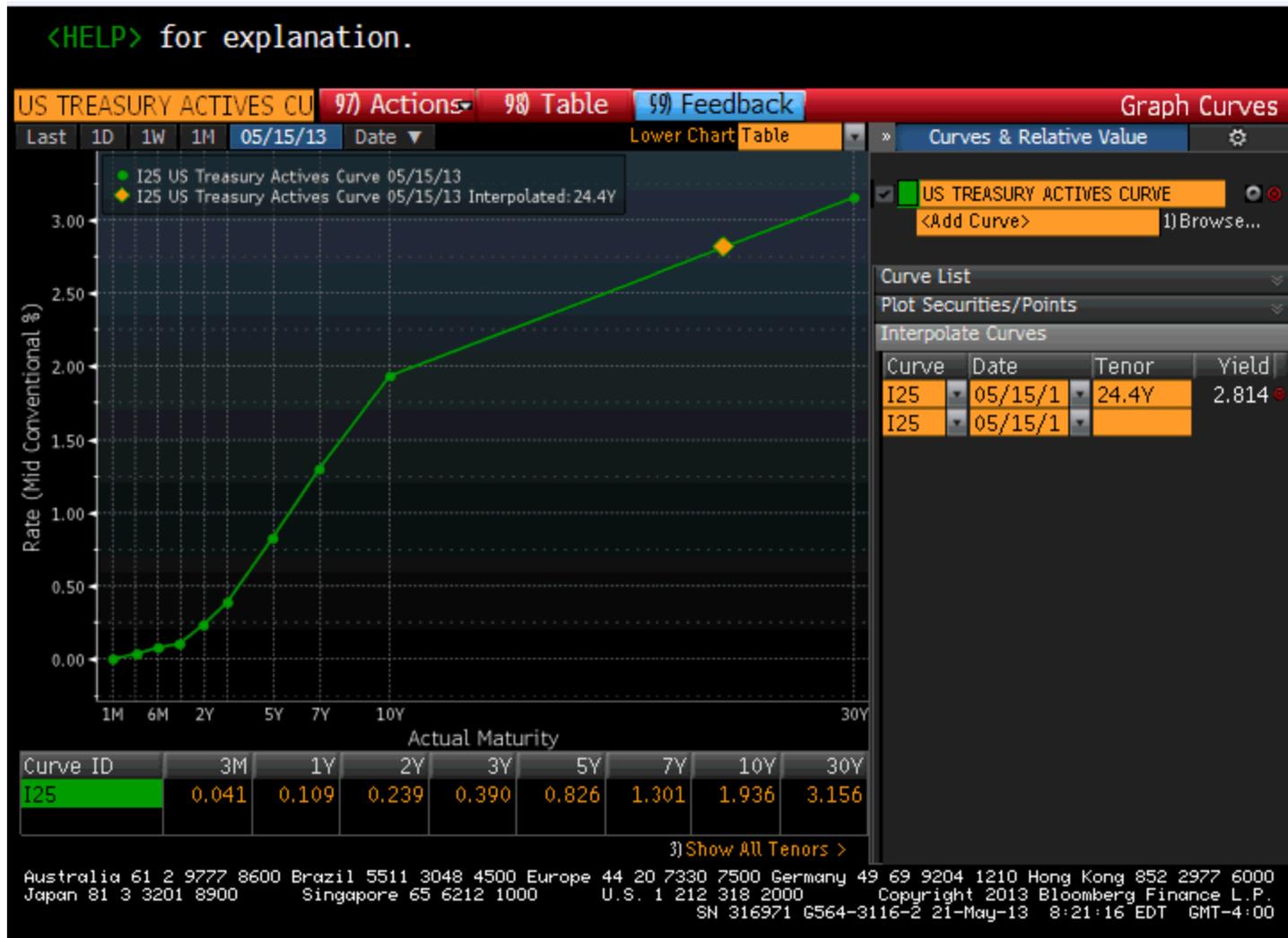
## Term Sheet

<b>Lender:</b>	<b>American Water Capital Corp.</b>
Lender's Credit Rating	Baa2 (positive outlook) / BBB+ (positive outlook)
<b>Borrower:</b>	<b>Kentucky American Water</b>
Borrower's Credit Rating	Not Rated
Amount	\$7,859,000
Security:	Unsecured
Tax Type:	Taxable
Issuance Date:	May 15, 2013
Maturity Date:	October 15, 2037
U.S. Treasury Rate:	2.81%
Credit Spread to U.S. Treasury:	1.19%
<b>Coupon</b>	<b>4.00%</b>
Issuance Costs	None
Redemption Provisions:	Make-whole call at T+25 bps
CUSIP:	03040W AC9
Trustee for Lender	Wells Fargo Bank
Use of Proceeds	To reduce short-term debt and fund capital expenditures

## Comparable Transactions: Recent Utility New Issuances

Issue Date	Issuer	Ratings (Moody's / S&P)	Tenor (years)	Amount (\$ in millions)	Coupon	Spread to Treasury
5/15/2013	Kentucky American Water	Not Rated	24.4	\$7.859	4.00%	1.19%
<b>10-year Issuances</b>						
3/13/2013	Indiana Michigan Power	Baa2/BBB+	10	\$250	3.20%	1.20%
3/11/2013	Kansas City Power & Light	Baa2/BBB	10	\$300	3.15%	1.10%
2/25/2013	Spectra Energy Capital	Baa2/BBB	10	\$650	3.30%	1.44%
<b>Average 10-year Issuances</b>			<b>10</b>	<b>\$400</b>	<b>3.22%</b>	<b>1.25%</b>
<b>30-year Issuances</b>						
2/21/2013	Kinder Morgan Energy Partners	Baa2/BBB	30	\$400	5.00%	1.85%
12/12/2012	American Water Capital Corp	Baa2/BBB+	30	\$300	4.30%	1.42%
12/3/2012	Plains All American Pipeline	Baa2/BBB	30	\$350	4.30%	1.50%
<b>Average 30-year Issuances</b>			<b>30</b>	<b>\$350</b>	<b>4.53%</b>	<b>1.59%</b>

# U.S. Treasury Rates



# Secondary Trading Levels

<HELP> for explanation, <MENU> for similar functions.

NYSE/CLOSE/TRADE/YTM Page 1/6 Historical Price Table

AMERICAN WATER AWK 6.593 10/37 130.553/130.553 (4.514/4.514) TRAC

Range 05/29/2012 - 05/20/2013 Source TRAC High 135.416 on 5/ 3/13  
 Period Daily Avg 128.484  
 Market Trade Low 118.684 on 8/21/12

DATE	Price	YIELD	DATE	Price	YIELD	DATE	Price	YIELD
F 5/20	130.553	4.514	F 5/ 3	H135.416	4.249	F 4/12		
F 5/17	130.291	4.529	T 5/ 2	134.586	4.294	T 4/11		
T 5/16	131.734	4.448	W 5/ 1			W 4/10		
W 5/15	130.358	4.525	T 4/30			T 4/ 9	133.275	4.368
T 5/14			M 4/29	134.715	4.287	M 4/ 8		
M 5/13			F 4/26			F 4/ 5		
F 5/10			T 4/25			T 4/ 4		
T 5/ 9			W 4/24	132.568	4.405	W 4/ 3	130.836	4.503
W 5/ 8			T 4/23	133.719	4.342	T 4/ 2		
T 5/ 7			M 4/22			M 4/ 1		
M 5/ 6			F 4/19			F 3/29		
			T 4/18			T 3/28		
			W 4/17	133.673	4.345	W 3/27		
			T 4/16	132.413	4.414	T 3/26	129.023	4.606
			M 4/15			M 3/25	128.788	4.620

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# Bloomberg Valuation Price

<HELP> for explanation.

NYSE/CLOSE/TRADE/YTM Page 1/6 Historical Price Table

AMERICAN WATER AWK 6.593 10/37 131.859/133.272 (4.441/4.363) BVAL

Range 05/21/2012 - 05/21/2013 Source BVAL High 136.401 on 4/18/13  
 Period Daily Avg 129.924  
 Market Trade Low 122.965 on 10/25/12

DATE	Price	YIELD	DATE	Price	YIELD	DATE	Price	YIELD
F			F 5/ 3	135.536	4.243	F 4/12	134.193	4.317
T			T 5/ 2	134.948	4.274	T 4/11	134.137	4.321
W			W 5/ 1	134.856	4.279	W 4/10	134.242	4.315
T 5/21	132.566	4.402	T 4/30	134.826	4.281	T 4/ 9	134.366	4.309
M 5/20	132.680	4.395	M 4/29	134.492	4.299	M 4/ 8	132.356	4.418
F 5/17	132.877	4.385	F 4/26	133.996	4.326	F 4/ 5	131.887	4.444
T 5/16	133.379	4.357	T 4/25	131.097	4.486	T 4/ 4	131.853	4.446
W 5/15	132.882	4.385	W 4/24	130.971	4.493	W 4/ 3	131.383	4.472
T 5/14	132.923	4.383	T 4/23	135.721	4.234	T 4/ 2	130.926	4.498
M 5/13	133.116	4.372	M 4/22	135.888	4.226	M 4/ 1	130.925	4.498
F 5/10	134.267	4.310	F 4/19	135.861	4.227	F 3/29		
T 5/ 9	135.431	4.247	T 4/18	H136.401	4.199	T 3/28	130.780	4.507
W 5/ 8	135.495	4.244	W 4/17	135.106	4.268	W 3/27	130.805	4.505
T 5/ 7	135.604	4.239	T 4/16	135.094	4.269	T 3/26	130.310	4.533
M 5/ 6	135.500	4.244	M 4/15	134.415	4.305	M 3/25	130.482	4.524

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